# City of Arlington Natural Gas Program-Issues Discussion Topics

for the

## Planning and Zoning Commission Work Session

April 7, 2010

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Below are comments from **MMA, Chesapeake, Vantage Energy, Titan Operating, Range Resources, and Quicksilver Resources** *in italics and red*, regarding the proposed changes to the City of Arlington Gas Well Ordinance.

1. **ROAD DAMAGE FEES:**

Current Procedure:

A. Permit not issued until road damage fee paid
B. Road Damage Assessment Study prepared by C&P Engineering, Ltd (3/07).
C. Based on road type, roadway assessment, and lane miles
D. Average amount paid per well: $198.59
E. Total collected since 2008: $23,433.66

Staff Recommendation:

A. Re-evaluate fee calculation

***Comments:***

1. *A before and after drilling inspection for road repair is a better approach to applying a specific fault for damage to existing roadways.*
2. *Re-Evaluation of road damage fee could be based on road type, roadway assessment (before and after drilling), and eliminating lane miles traveled.*
3. *A major arterial is designed for a high traffic capacity which is able to withstand heavy vehicles. A smaller collector or existing country lane road would experience greater decay in a smaller amount of time.*
4. *There was general operator consensus that a process of video recording the condition of access road(s) before and after a project would be a good method to establish the base line condition of roads. Operator should not be required to maintain any road, but should be required to fix "operator" caused damages. If the city desires to upgrade a particular road, then the city would bear its proportionate share to do so, or would work with the operator on a project specific basis to arrive at a shared cost agreement to upgrade roads. In this manner, if there is a particular road the city desires to upgrade, then it makes sense to work with the operator up front on a project basis, such that the operator's repair and maintenance costs can be applied to a more useful purpose of a road upgrade rather than road maintenance and repair of an old road. However, under no circumstance should an operator be held responsible to assess the city's road construction/repair project. Working with the city on an upgrade project should be voluntary and needs to make economic sense to the operator. The minimum standard should be restoration of the road to its like condition at the beginning of the project.*
5. *Road damage fees are for road repairs of damage made by the gas well industry, not for road replacement cost. Videoing transportation routes before and after operations is how this issue is handled in most area cities. If a road is sub-grade before drilling operations, we would all want the fees to go toward an upgrade but only in the amount that we are obligated by our operations. It would be a good idea to have the City inform an operator of road repairs/upgrades on a particular transportation route so that the operator could respond with disclosure of their immediate operational plans to avoid repairing/replacing a road right before an operator has an "event."*

6. *Before a decision is made review the road ordinances from City of Fort Worth, Mansfield, Haslet, Flower Mound, Burleson and others to seek a best practice. Also to reduce road impacts, Arlington should allow broader latitude to lay SWD lines to a central tank battery to centralize trucks to a specific high use location.* ***Fewer pipelines, more trucks. More pipelines fewer trucks and fewer tanks.***
7. *The City cannot control activity (improvements, construction, driveway permits) within TxDOT right of way. The City should not be able to charge a fee for TxDOT road improvements. It would be the same as if TxDOT just decided to put up a toll road on a City street they did not construct or do not oversee. Although similar, TxDOT and Cities govern their roads different.*

***Questions:***

1. *How does the city approach a before and after road damage fee requirement?*
2. *What do other cities do in assessing road damage fees?*

***Recommendations:***

1. *Consider a concept of determining road use/repair fees based on a before and after road inspection.*
2. *Review the road ordinances from City of Fort Worth, Mansfield, Haslet, Flower Mound, Burleson and others to seek a best practice.*

2. **TRANSPORATION ROUTES:**

Current Procedure:

A. Require submittal of truck routes with construction plans.
B. Require road repair contract

***Comments:***

1. *Current process is adequate in determining the best transportation route.*
2. *Average amount paid per well is about $198.59. Wouldn't this be because State or County roads are used to the most part for transportation routes to wells in Arlington? This probably shows the transportation route planning in Arlington is working. Making transportation routes flexible is sensible as Industry traffic is not any different than normal traffic, sometimes routes need to be changed temporarily or permanently. Timing would be the most sensitive issue for our operations – during a rig move or frac operations and the occasional work over rig move.*

***Recommendations:***

1. *Include language in ordinance to allow for administrative approval of changes to approved transportation routes. Route changes are sometimes needed because of construction/improvements to existing roadways.*

3. **OPERATOR LIABLITY: INSURANCE, BONDING**

Current Procedure:

A. Prior to issuance of a gas well permit the operator shall provide the inspector with a security instrument in the form of a bond or letter of credit.
B. Operator shall carry a policy or policies of insurance by an insurance company or companies authorized to do business in Texas.

***Comments:***

1. *Current City of Arlington bond requirements are negatively affecting the credit rating of some gas well operators.*
2. *Justification for the bond level should meet the anticipated exposure. Bonds were put in Barnett Shale municipal ordinances to mainly cover road repair cost and ensure there was no cost left by an insolvent operator. Hopefully, our effort today is providing a solution for road repair cost; and, the State has a fund for orphan wells. The amount of insurance required by municipalities will cover any accidents or environmental damage caused by an "incident."*
3. *Having a $10,000 single-well bond with an option for a blanket bond for an unlimited number of wells in the post-completion stage works in most area cities. The post-production bond amount is $150,000 in Fort Worth to cover up to 75 wells. In summary, bonds should be for clean-up that a municipality has no other way to fund and insurance is for accidents that all prudent operators have coverage for any way. The levels that I suggest would cover a site reclamation or road repair if an operator was unwilling or unable to cover the cost.*
4. *The bond funds would also be used by the city to reclaim a location if an insolvent operator walked away from the property. Assume the cost to plug and abandon is $10,000, and the cost to reclaim is $40,000. The bond requirement of $50,000 is adequate to cover the city on a one well, one site project. If the operator now drills 5 wells on that site, the city's exposure is now $90,000, while their current bonding requirement is $250,000. Take that to a 10-well pad, and the exposure is $140,000, while their requirement would be $500,000, and so on.*

***Questions:***

1. *How do other cities handle insurance and bonding requirements?*
2. *Could there be a blanket bond for all sites for each operator?*

***Recommendations:***

1. *Allow for the use of a self-insured policy.*
2. *Allow for a blanket bond for all wells sites for each operator.*
3. *Cap the bond amount at $1.0 million for all wells for each operator.*
4. *A blanket bond approach implemented on a tiered well count format. Operators to solicit feedback from bond providers, and determine if they have any specific recommendations on the number of wells and bond amount per tier, and cap amount that would make sense from a small operator's perspective.*
5. *A $50,000 single-well bonds with the option to have a blanket bond in the amount of $200,000 for an unlimited number of pre-production wells is a good standard. (It can be assumed that an operator would not have incidents occurring on multiple pad sites at the same time, nor have the exposure from a large number of wells in pre-production stage at the same time.)*
6. *A tiered proposal recommendation could look something like this:*
    A. *One site / one well: $50,000 (minimum bond requirement for an operator drilling their first well on a new site)*
    B. *One site / 1-10 wells: blanket bond of $150,000*
    C. *Combination of sites > 1 / or well count > 10: Maximum blanket bond per operator of $250,000 (once an operator exceeds 10 wells, or adds their second site, the maximum blanket bond requirement is triggered).*